

**REPORT OF THE AUDIT OF THE
FORMER WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 01, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER WOLFE COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 01, 2008 Through April 15, 2009**

The Auditor of Public Accounts has completed the audit of the former Sheriff's Settlement - 2008 Taxes for the former Wolfe County Sheriff for the period May 01, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,396,815 for the districts for 2008 taxes, retaining commissions of \$58,395 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$1,338,205 to the districts for 2008 taxes.

Report Comments:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds. However, there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the collateral.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Raymond Hurst, Wolfe County Judge/Executive

Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff

Honorable Chris Carson, Wolfe County Sheriff

Members of the Wolfe County Fiscal Court

Independent Auditor's Report

We have audited the former Wolfe County Sheriff's Settlement - 2008 Taxes for the period May 01, 2008 through April 15, 2009. This tax settlement is the responsibility of the former Wolfe County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Wolfe County Sheriff's taxes charged, credited, and paid for the period May 01, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff
Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2009 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 13, 2009

WOLFE COUNTY
HENRY V. "ROCKY" DUNN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 01, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 102,385	\$ 341,136	\$ 507,475	\$ 181,029
Tangible Personal Property	13,794	50,190	59,093	27,504
Fire Protection	2,619			
Franchise Taxes	17,865	64,305	76,605	
Unmined Coal - 2008 Taxes	1	4	6	2
Oil and Gas Property Taxes	6,132	20,431	30,394	10,842
Bank Franchises	12,844			
Penalties	921	3,014	4,460	1,586
Adjusted to Sheriff's Receipt	(56)	(20)	(34)	(12)
Gross Chargeable to Sheriff	✓ 156,505	✓ 479,060	✓ 677,999	✓ 220,951
<u>Credits</u>				
Exonerations	1,368	4,531	6,739	2,408
Discounts	2,233	6,582	9,331	3,089
Delinquents:				
Real Estate	9,029	29,567	43,984	15,690
Tangible Personal Property	51	187	194	2,717
Total Credits	✓ 12,681	✓ 40,867	✓ 60,248	✓ 23,904
Taxes Collected	✓ 143,824	✓ 438,193	✓ 617,751	✓ 197,047
Less: Commissions *	6,400	18,623	24,710	8,662
Taxes Due	✓ 137,424	✓ 419,570	✓ 593,041	✓ 188,385
Taxes Paid	137,404	419,517	592,933	188,351
Refunds (Current and Prior Year)	20	53	108	34
Due Districts or as of Completion of Audit	\$ 0	\$ 0	\$ 0	\$ 0

* Commissions:

10% on	\$	10,000
4.25% on	\$	769,064
4% on	\$	617,751

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Wolfe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the former Sheriff did not have a written agreement with the bank.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Wolfe County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2008 through April 15, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 13, 2009 through April 15, 2009.

Note 4. Interest Income

The former Wolfe County Sheriff earned \$529 as interest income on 2008 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Wolfe County Sheriff collected \$7,462 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff
Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Wolfe County Sheriff's Settlement - 2008 Taxes for the period May 01, 2008 through April 15, 2009, and have issued our report thereon dated October 13, 2009. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Wolfe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Wolfe County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Wolfe County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Wolfe County Former Sheriff's Settlement - 2008 Taxes for the period May 01, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management, the Wolfe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 13, 2009

COMMENTS AND RECOMMENDATIONS

WOLFE COUNTY
HENRY V. "ROCKY" DUNN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 01, 2008 Through April 15, 2009

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of December 1, 2008, the Sheriff had bank deposits of \$888,554; FDIC insurance of \$250,000; and collateral pledged or provided of \$759,160. Even though the former Sheriff obtained sufficient collateral, the pledge or provision of collateral was not approved by the board of directors of the depository institution or its loan committee, and there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the collateral. The former Sheriff should have entered into a written agreement with the depository institution to secure the former Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: None.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal control, we found that the former Sheriff's office had a lack of adequate segregation of duties. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collected, deposited, and recorded all receipts, and prepared and recorded all checks. In addition, the bookkeeper prepared all bank reconciliations. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. Lastly, authorized check signers should be independent of check preparation, cash receiving, and purchasing.

If the former Sheriff could not segregate these duties, compensating controls such as the former Sheriff recounting the daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should have been implemented. The former Sheriff could have documented this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The former Sheriff could have also periodically compared the bank reconciliations to the balance in the checkbook and documented this by initialing and dating the bank reconciliation and the balance in the checkbook.

Sheriff's Response: None.

